

Testimony of

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Summary of Testimony

While many within the utility industry are discussing unbundling of generation, transmission, and system operations functions, Oglethorpe Power Corporation, a Georgia power supply cooperative, has actually accomplished it. In the meantime, while many states are experimenting with different forms of competition, Georgia has had a competitive environment for 24 years with competition for large commercial and industrial (C/I) loads and has an integrated transmission system.

Oglethorpe's restructuring activity, completed voluntarily and without special legislation, matches the cooperatives' view of the future outcomes expected from deregulation of the electric utility industry and the demands of competition. These changes provide greater flexibility for Oglethorpe and its member Electric Membership Corporations (EMCs) to maximize opportunities and better serve their customers.

Oglethorpe believes that any move to further restructure the electric industry should be accomplished in an orderly transition that is good for all classes of customers, provides for the recovery of all stranded cost, provides for reliability and safety, provides for exclusive distribution service areas, and provides equitably applied standards.

Further, because it was and is federal policy that has delivered us to the current point in history with nuclear energy, Oglethorpe believes that we need a national policy governing nuclear stranded cost recovery.

Further details of the Oglethorpe Power comments are contained in the complete filed testimony.

TESTIMONY

Chairman Schaefer and distinguished members of the subcommittee, thank you for allowing me the opportunity to appear before you today to discuss the future of the electric utility industry and our plans for prospering in the new competitive environment.

My name is Nelson Hawk. I am Senior Vice President of Marketing for Oglethorpe Power Corporation in Tucker, Georgia, a suburb of Atlanta. We are an electric cooperative rather than an investor-owned utility or a municipal system. We are primarily financed by debt guaranteed by the federal government through the Rural Utilities Service (RUS).

Oglethorpe Power Corporation is a \$4.7 billion corporation -- the nation's largest power supply cooperative. Our corporation is owned by 39 customer- or member-owned electric cooperatives in Georgia, serving more than 2.6 million residents. These distribution cooperatives (Electric Membership Corporations, or EMCs) are a diverse group; the largest serves more than 100,000 customers, and the smallest serves fewer than 3,000 customers. The EMCs' service area covers approximately 73% of the land area of Georgia. Ninety-three percent of the EMC customer base is residential, which makes up approximately 72% of the energy sales. Three EMCs in Georgia, in addition to the 39 which own Oglethorpe, receive their power supply through the Tennessee Valley Authority (TVA).

Mr. Chairman, it is appropriate that you have come to Georgia because the electric utility industry in Georgia is an effective and competitive structure for serving the consumers, farmers, businesses, and industries of the state. Currently, the structure of the industry in Georgia is based on three types of electric utilities — investor-owned (Georgia Power Company and Savannah Electric Company), government-owned (municipals and the Municipal Electric Authority of Georgia - known as MEAG Power), and customer-owned (Electric Membership Corporations [EMCs] affiliated either with Oglethorpe Power Corporation or the Tennessee Valley Authority). With the exception of the TVA systems, these three utility types jointly and/or separately own and operate power plants, or purchase power resources in the generation portion of the business. Each individual utility (municipal, cooperative, investor-owned) owns and operates distribution facilities as well as provides energy services, customer relations, and billing to retail customers.

Several things make Georgia unique in the electric utility environment. First, for commercial and industrial (C/I) customers with electric requirements greater than 900 kilowatts (kW) connected, the “Customer Choice” provision of our territory law allows these customers to choose their retail suppliers. Competition for these loads has resulted in attractive prices, services, and relationships that strongly encourage economic development and job creation. Second, with the exception of the TVA system, these three utilities types also jointly own, operate, construct, and maintain the transmission system (the bulk delivery portion of the business) through an Integrated Transmission System

(ITS) arrangement. For most smaller customers, that is, those who will require less than 900 kW, the distribution facilities and services are provided in assigned geographic territories to minimize duplication of expensive infrastructure investments. This utility structure has produced electric rates for most customers that are basically half as much as those in New England, New York, and California.

The high level of competition for the C/I customers with electric requirements of 900 kW or greater connected was created in 1973 with the “Customer Choice” provisions of the Georgia Territorial Electric Service Act. Over the last ten years, more than 150,000 jobs have been created, and investments of over \$22 billion in new and expanded facilities have occurred in Georgia from electric utility initiatives. This competition for C/I customers has also been beneficial for all customers in the state. Some might say that these provisions do not benefit residential customers, but, in reality, addition of these large businesses results in increasing the overall efficiency of our system by increasing the utility system load factor. It has kept the prices of electric energy relatively low and competitive for all cooperative members. These contributions to economic growth and job creation have helped make Georgia the fourth fastest-growing state in the nation.

In addition, the competition for these types of customers is becoming increasingly global in nature. Because of the “Customer Choice” competition within the state, we have literally traveled the world helping to attract these businesses, and the associated jobs and investments they bring. We have

pursued prospects in such places as Japan and Canada. We also work closely with the other economic development agencies in the state to attract customers to Georgia. Once we get the business to locate in Georgia, we then compete aggressively with the other power suppliers within the state to “win” the load as our customer. In the end, the United States wins, Georgia wins, and our customers win.

Another key feature mentioned earlier in my comments, and, Mr. Chairman, possibly a model for other states to use, is our Integrated Transmission System (ITS). The ITS arrangement, which has existed for more than 20 years, is unique to Georgia. The ITS allows Georgia utilities access to the power delivery system for buying and selling available wholesale electric energy into and out of Georgia, which further reduces energy prices to retail customers in Georgia while minimizing the impact on the physical environment. No matter where you live in the state, we can get power to you through the ITS. The ITS has enabled joint transmission services to be offered in Georgia years ahead of the recent federal initiative creating transmission open access at the wholesale utility business level on a regional and national basis. In essence, we have implemented a mini-FERC 888 rule here in Georgia for some time.

Even with the positive current structure of the electric industry in Georgia, various forces and customer demands are encouraging further deregulation and expansion of choices for electric customers. The EMCs and Oglethorpe have been and will continue to take advantage of any changes in the electric utility industry to better serve their customers and maximize their options.

Mr. Chairman, sometime before you introduced your legislation and before other states started to seriously look at restructuring, we sensed that the market forces were already moving ahead, forcing us to look at how we conduct our business. Several things have contributed to this. One was the needs of our customers, the individual EMCs in the state; another was to take full advantage of changes in the wholesale power market, where we believe most of the savings to customers can be realized. So, in 1995 we embarked on a radical new course which has just recently culminated in the nation's first voluntary unbundling of a fully integrated electric company.

Last month, Oglethorpe completed its restructuring into three separate companies - the new Oglethorpe, the Georgia Transmission Corporation (GTC), and the Georgia System Operations Corporation (GSOC). The new Oglethorpe will focus its efforts on effectively managing existing generation resources, obtaining additional generation resources as needed, and providing marketing as well as economic and community development services to support the EMCs. GTC will provide reliable transmission and associated services. GSOC will concentrate on dispatching power resources, operating transmission delivery systems, and tracking power flows from various generation resources over the ITS network. This restructuring activity, completed voluntarily and without special legislation, matches the cooperatives' view of the future outcomes expected from deregulation of the electric utility industry and the demands of competition. These changes provide greater flexibility for the EMCs and Oglethorpe to maximize opportunities and better serve their customers.

In addition, we are now reaping the benefits of competition as a result of the 1992 Energy Policy Act. As a result of the Act, we are taking full advantage of the new opportunities available in the wholesale market place by pursuing power marketing arrangements. In November 1996, a power marketing deal with Louisville Power Marketing (LPM) for up to one-half of Oglethorpe's power requirements was completed. This is believed to be the largest wholesale electric power arrangement in the history of the industry. This arrangement will save millions of dollars over the term of the agreement for Oglethorpe, the EMCs, and their customers. Recently, the Oglethorpe Board of Directors authorized the completion of a second major power marketing agreement with the Morgan Stanley Capital Group for up to the remaining one-half of Oglethorpe's system-wide power needs. Additional substantial savings will be produced, thus further reducing wholesale power costs to Oglethorpe, the EMCs, and their customers. These wholesale power marketing arrangements will help ensure that the EMCs remain competitive with other energy suppliers and that retail customers benefit from wholesale power competition.

Mr. Chairman, you only have to go back a few decades to find people in this state who did not have electric service. The electric system in Georgia has evolved since that time in an orderly fashion based on public policy principles that ample and reliable electric service should be available at a fair price. Oglethorpe and Georgia's EMCs believe that an orderly transition from the present long-standing structure to a new utility environment would be the most prudent course for all citizens. As customers, suppliers, power marketers,

regulators, and others observe the results of experiments and retail wheeling pilot projects in high-energy-cost states, it is important to learn from those efforts, do minimal harm to a system that is working well, and implement those features that make the most sense for customers in Georgia.

H.R. 655 and various state initiatives are being considered to allow customers to have more choices. There is no doubt that increased competition should serve the public interest. However, this transition must be properly implemented. We believe that in order for full retail wheeling to be effective, the following basic principles should be observed:

- All classes of customers -- whether in urban or rural areas -- must be treated equitably and benefit equally
- Utilities must have the ability to recover all costs incurred due to the utility's legal obligation to provide electric service
- Reliability and safety must be maintained
- Duplication of facilities should be avoided by maintaining exclusive distribution service areas
- All energy providers -- not just utilities -- must be subject to the same standards

Let me briefly elaborate on the area of stranded cost, which is a significant issue in this restructuring debate. Utilities have invested in significant generation, transmission, and distribution assets to prepare to provide service to today's customers, as well as to serve future customers - particularly with nuclear investments. During the 1970's, federal energy policy for this nation promoted nuclear power due in part to the oil embargoes and the push to reduce the national dependence on oil. The official policy of the federal

government was to promote nuclear energy as a way to free up oil for transportation and natural gas for home heating. The federal government not only funded research for the development of reactors, but also lent money to build them. As such, many utilities were persuaded by these federal initiatives to invest in nuclear plants. In fact, the originally issued Oglethorpe nuclear debt was \$4.0 billion of which \$3.1 billion was federally financed. Today, the development of nuclear power is no longer federal policy, while at the same time federal regulations continually increase operational costs. The federal government regulates nuclear plants, charges for nuclear fuel storage (which the government has yet to provide), and will be determining the decommissioning costs. Therefore, because it was and is federal policy that has in large part helped deliver us to this point in history, we believe that we need a national policy providing for nuclear stranded cost recovery.

With these basic tenets in mind, with the success of the existing electric utility structure in Georgia, with the large financial commitments and technical complexity of electric utility operations, and with the critical necessity of reliable electric energy services to customers, an orderly transition to a more competitive environment may well be the most prudent course of action. Let's do it right rather than fast. Let's not have any unintentional adverse consequences of our actions.

In closing, let me say that as we continue these discussions on what may prove to be one of the most crucial issues affecting the citizens of Georgia and the United States in many years, we trust that our ultimate objective will be to

search out and provide potential benefits to all. As the restructuring debate progresses, Oglethorpe and the EMCs of Georgia intends to remain a part of the process and assist you and the Congress in seeking solutions to the many complex issues involved.